THINKING THE UNTHINKABLE

TEN YEARS ON

THE RT HON FRANK FIELD MP

The Fifth Leveson Lecture

LEVESON PAPER NUMBER FIFTEEN

Cover photo: Left to right: Rt Revd Mark Santer, former Bishop of Birmingham, Bill Husselby, Chair of Governors of the Foundation of Lady Katherine Leveson, the Rt Hon Frank Field MP and Revd Dr James Woodward, Director of the Leveson Centre.

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Registered Charity Number 213618

Leveson Paper Number Fifteen

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The Rt Hon Frank Field MP

This paper is part of a series produced by the Leveson Centre. For details of other papers, see the inside back cover or the Centre website, www.levesoncentre.org.uk

Foreword

As our fifth Leveson lecturer we were fortunate to have the Rt Hon Frank Field MP, one of the Leveson Centre's distinguished patrons.

It was an unusual lecture in relation to those which have gone before in that it did not focus exclusively on the issues which older people face. While pensioner poverty was addressed, this was set within the wider context of the government's total welfare reform programme over the past ten years. Some may feel that substantial parts of the lecture dealing with policies designed to help families from welfare into work or the need for a vastly improved child support system have little to do with older people, yet this would surely be a short-sighted view. The welfare of any section of the community is bound up with the welfare of society as a whole and it is perhaps right that we should be required to consider the problems which any government faces in trying to institute wide-reaching welfare reforms.

Much of the lecture makes bleak reading. In Frank Field's view the Labour Government had unprecedented advantages when it came to power in terms of a strong economy, a huge parliamentary majority and a widespread willingness to embark on radical reform. Yet despite its best efforts, some of which have been successful, the overall impact of the reforms has been disappointing in spite of the huge sums spent and it is hard to see how current levels of expenditure can be maintained, let alone increased. Furthermore the scale of means-tested benefits is higher now than at any time since the 1930s and we have to ask questions about the way that affects public attitudes.

What this lecture highlights very clearly is that the Leveson Centre is right to designate itself The Leveson Centre for the Study of Ageing, Spirituality *and Social Policy*. Ageing and spirituality may be of greater interest to many of those who support the Centre but social policy is no less important. If we are to pursue our aim of making life better for older people we cannot afford to ignore policy issues or turn our backs on the processes of political decision-making.

Colin Johnson
Retired Priest

Synopsis

Thinking the unthinkable was a phrase the media attached to the task Tony Blair encouraged me to undertake while Labour was in opposition. I was never, thankfully, given this charge. The whole of my work has been thinking the workable.

There could not have been a more favourable time for the most major of welfare reform programmes. The economy had been growing for 19 consecutive quarters before the 1997 election. There was a record budget surplus projected well into the future. And, not least, the electorate had signalled its support for sweeping reforms by the size of the majority given to the incoming Labour Government. Even those who did not vote Labour expected and wished for major welfare reform.

In this lecture I review the main areas of the Government welfare reform programme. It is a record where there have been some successes, but the overall judgement must be one of an administration sometimes bungling the reforms, sometimes losing its nerve at the very outset of the reform strategy, and sometimes simply following the wrong line of action.

Introduction

It is difficult to think of a more propitious time for welfare reform. By the 1997 election the economy had been growing for 19 consecutive quarters; tax revenues were buoyant; a record number of jobs were being created; the Government had one of the largest parliamentary majorities ever and the electorate was up for radical welfare reform. While there have been some notable successes, a holistic and sustainable reform of welfare has yet to be achieved. The Government has been very successful, for example, in tackling pensioner poverty but the strategy it has adopted to achieve this goal is not sustainable over the longer term. Nor is there any indication of a sustainable long-term pensions strategy. Again, while the Government is to be commended in setting the target to abolish child poverty by 2020, it has failed to meet its target of lifting a quarter of poor children out of poverty by 2005 and the resources are not available for a further advance on this front. £5 billion has been spent on New Deal programmes with only a modest increase in employment over what the level would have been without such an initiative. Moreover, only a fraction of this £5bn budget has been spent helping incapacity benefit claimants into work, even though this group is by far and away the largest group of people of working age on benefit. And, lamentably, the CSA appears in even greater disarray than when Labour began its reform programme.

There are four main objectives to Labour's welfare reform agenda. The first is to combat pensioner poverty and to prevent poverty amongst future pensioners. The second is to ensure that work pays and thereby raise significantly Britain's employment rate. The third goal is to transform an essentially passive welfare regime into a more proactive agency and so help raise Britain's employment level. Lastly, Labour is committed to making the CSA an effective agency for collecting child support. How well has Labour achieved its four overriding welfare reform objectives?

Tackling pensioner poverty

Tackling pensioner poverty is clearly New Labour's most tangible welfare success. Since 1997 the current administration has redistributed by way of pensioner credit more resources to the poorest pensioners than any previous government since modern welfare was established in 1948.

This success comes at a price. Pension credit is currently indexed to earnings and the Treasury has estimated that, over time, a growing proportion of pensioners will become eligible for the means-tested credit. By 2050, in fact, 70 per cent of pensioners will be eligible.[1] A means-tested strategy on this scale is clearly not sustainable in the longer run. A free society cannot be run on the basis that 7 out of 10 pensioners will be eligible for what is often a substantial means-tested handout. Means-testing on this unprecedented scale will also cripple any incentive to save amongst perhaps a majority of today's workforce. Likewise, the increase in taxation to pay for well over a majority of pensioners gaining means-tested help, which the Government estimates at an additional 13p on the standard rate of tax, is not electorally sustainable, particularly as the strategy penalises effort, honesty and savings – all goals strongly supported by voters and endorsed by the government.

Disengaging from a means-tested strategy which cannot be sustained over the long run is not the only reason why a sustainable long-term pension reform strategy is urgent. All post-war governments have based the retrenchment in the value of the state retirement pension on the assumption that company pensions will guarantee a growing proportion of pensioners an adequate income. That scenario is no longer tenable. Gordon Brown's change to Advanced Corporation Tax, coinciding as it did with a fall in equity markets, has sent the majority of occupational pension schemes into a sharp decline. Of course the present Chancellor has not been the only agent of destruction. Changes by Nigel Lawson, taxing pension fund assets valued at over 105 per cent of the scheme's liability, and Norman Lamont's modest ACT changes, played a part. But the imposition of tax changes drawing up to £5 billion annually from pension fund income has done irreversible damage.

Final salary schemes, the most generous of all pension provision, were, admittedly, closing to new members before New Labour's first electoral landslide. But figures from the Pension Commission show that what was a modest trend has been turned into one of avalanche proportions. Over the past ten years, 60 per cent of all final salary schemes have closed to new members but around five sixths of these closures have occurred since 2000.[2] The shift from DB-DC is not *per se* a failure. The portability and the individualised guarantee of the fund are clear advantages. It is the reduction in employer contributions which parallels that shift which is the catastrophe.

Labour's 1998 Green Paper on welfare reform hailed company pension schemes as the outstanding success of the previous 100 years. When Labour came to power Britain had the strongest funded pension provision in the European Union. Indeed it had more investment set aside to meet future pension commitments than the whole of the European Union combined, apart from Holland. From being the outstanding welfare success, Labour has been largely responsible for Balkanising Britain's future investment-based retirement income. The Balkanisation has been so successful that the Government has now given up its objective of raising from 40 to 60 per cent the proportion of future pensions paid by investment dividends as opposed to taxation.[3]

How has the Government reacted to the pension crisis which, in part, is of its own making? It has adopted a threefold strategy which, to use a favourite phrase of the Government at the moment, is simply not fit for purpose.

By redistributing more additional income to pensions through pension credit the Government opened up for the first time ever the possibility of an investment-led pension reform. Such a strategy would concern itself not with today's pensioners, for whom pension credit was exclusively designed, but with securing the future pensions bill. The Government has passed up this unique possibility without registering any appreciation of the opportunity it had itself created. History, I believe, will judge it harshly, not for creating the opportunity, of course, but for so casually squandering it.

Instead of building up rafts of investments to meet future pension liabilities the Government has gone down the old and failed route, of promising to issue tax-based IOUs. The last time this strategy was adopted was with Barbara Castle's SERPS, the scheme this Government wound up by introducing the also tax-financed State Second Pension. Experience teaches that a tax-financed pension reform will not last and the present Government's proposals will not prove an exception to this iron rule of pension politics.

It has secondly, adopted what it calls 'soft compulsion' whereby those employers whose employees are not in company schemes will have to contribute three per cent of salary, employees four per cent and taxpayers one per cent of earnings.

Some observers may genuinely believe this to be a third way option for improving pension savings. I prefer to call it what it really is: a toxic concoction which will, once it is added into today's pension mixture, result in current levels of employer contribution – sometimes well over 30 per cent of salary – falling to the Government's set floor for employer savings. With growing global competition forcing down costs this floor will all too soon become a ceiling. Soft compulsion will result in an overall fall in the level of company pension provision.

The Government's pension strategy is not fit for purpose in a key third respect. The establishment by the Government of a National Pensions Saving Scheme by any other name will result in potentially huge liabilities being firmly placed at the taxpayers' door. We have seen how the Ombudsman has nailed liability on to this Government for simply issuing a leaflet proclaiming the advantage of company pension schemes. That hardly anyone saw the leaflet – myself included – appears to be beside the point. Since the issuing of that leaflet all too many pension schemes have folded leaving the membership exposed to only minimum pension rights. Imagine what the political furore will be when the different funds held under the NPSS umbrella start producing different returns. Again the cry will be that it is a government-established scheme and the government – i.e. the taxpayers – should be liable for the compensation bill.

There is an alternative. It is the investment-led reform set out by the Pension Reform Group. It has taken years of debate and testing to build up into a workable model for long-term pension reform. It awaits implementing by the next available government intent on sustainable long-term reform.

Making work pay

The annual cost of pension credit now totals £6 billion. The tax credit bill for people of working age comes in at £13 billion. There are tax credits for making low pay up to a decent minimum, providing financial support for families with children and substantial help towards the costs of childcare. The programme has two major welfare objectives. It holds a pivotal role in helping the Government reach its audacious objective of abolishing child poverty by 2020. Tax credits are also the main instrument in making work pay. The minimum wage has only a limited role here.

As with pension credit, tax credits have been in one important respect a significant success. Very considerable numbers of households with children now receive a substantial additional income. Indeed, with the system costing the equivalent of 5p on the standard rate of tax, it would be truly amazing if this were not so. Average annual payments of just over £2,000 speak for themselves. The goal is to ensure that no worker with children is financially worse off moving from benefit into work. The Chancellor is right to claim a record level of redistribution to families through his tax credit initiative.

There are nevertheless a number of crucial concerns arising from a means-tested strategy of such significance. The first concern centres on whether the administration of the benefit will ever be fit for purpose.

During 2003–04, over two million claimants were overpaid tax credits by an average amount of £1,027. Three quarters of a million claimants were underpaid by an average of £600 each. In 2004/05, a further two million claimants were overpaid by an average of £865 and one million people were underpaid by an average amount of £600.

The latest batch of administrative reforms announced with the December Pre-Budget statement will still leave around two million households during the coming year receiving incorrect amounts of benefit with most overpayments often of around a thousand pounds being clawed back immediately. It should not be difficult to imagine the financial chaos and the depth of worry that consequently engulf millions of tax credit users as a result of this continuing administrative chaos.

What is unclear is to what extent this chaos is a result of Gordon Brown endlessly changing the nature of tax credits, to whom they should be paid, and the agency of payment. David Willetts has wittily commented on this policy shambles:

> …within the space of four years … the Government will have: abolished Family Credit; introduced the Working Families' Tax Credit; introduced the Disabled Person's Tax Credit; introduced a Childcare Tax Credit; introduced an Employment Credit; abolished the Married Couple's Tax Allowance; introduced the Children's Tax Credit; introduced a baby tax credit; abolished the Working Families' Tax Credit; abolished the Disabled Person's Tax Credit; abolished the Children's Tax Credit; abolished the baby tax credit; introduced a Child Tax Credit; abolished the Employment Credit; introduced a Working Tax Credit … since October 1999, the Government will have introduced five new tax credits for families, scrapped four of them and then introduced two new ones … That averages out as a new tax credit for families every six months.[4]

Or are the faults in the tax credit administration systemic? Commenting on the extent to which tax credits dominate her work, the Parliamentary Ombudsman mused aloud whether this might not be the case.[5] It would not be surprising if this turned out to be true.

The tax credit system combines tax administration and benefit payments when both systems serve quite distinct goals. Each income tax payer is allowed to keep part of his or her earnings free of tax. Beyond what is called this tax threshold all earnings attract tax but if earnings in any week fall below the threshold the amount of tax-free income unclaimed is automatically carried forward. Tax credits try to operate what are in fact benefit payments making wages up to a minimum level. The system can operate well for those people with a wage which does not vary from one week to the next and where total weekly pay is unaffected by the number of hours worked or any short term absences from work. Once we move into the volatile world of wage payments inhabited by so many low wage earners this idealistic system more often than not comes crashing down around the claimant's ears.

What is so far unclear is whether it is possible to devise a tax credit IT system combining a tax and benefit system whose objectives are at such variance, or whether the companies gaining the contract from the Revenue lack the expertise fully to master their brief. The IT contract for running tax credits was originally held by EDS which holds 13 major contracts in the public sector, including as we shall see, one for the much troubled Child Support Agency.[6] Each of these contracts has experienced major difficulties, some near fatal. Such was the failure of EDS to deliver a decent minimum service that it lost its £2.4 billion tax credit IT contract with HM Revenue and Customs to CapGemini, Ernst & Young late in 2003.

How effective will CapGemini be in dealing with what appear to be systemic faults? The consequence of the tax credit system stumbling on in this broken-backed way has major repercussions for parliamentary government. Parliament has set down the levels of tax credits which should be paid and yet for 3 million families this wish is disregarded. Luck will be the chief determinant of whether something like 1 in 2 families gain the credits to which Parliament says they are entitled – a novel means for determining who receives help from an anti-poverty programme.

Tax credits have been the primary weapon wielded by the Government in its campaign against child poverty. Even though the current tax credit programme costs £13 billion it has not been successful in combination with other policies to meet the first and easiest part of the Government's child poverty objective – lifting out of poverty the first quarter of poor children by 2005. There is no additional £13bn to lift the remainder of this first quarter who did not pass the non-poverty finishing line, let alone the 800,000 who compose the next quarter. On this front the Government's policy has, sadly, well and truly stalled.

Financial allocations for tax credits have been published for the period up to 2008 and these data do not allow for a step change in the cost and therefore the value of tax credits. Beyond this date the Chancellor has indicated that overall public expenditure will rise by less than the estimated 2.5 per cent growth rate of the economy. The overall growth rate of public expenditure is put at 1.8 per cent but health, education and overseas development will have their budgets protected. The growth rate for all other programmes, including tax credits, will have to be reduced, some of them substantially, to keep within what will be the overall target of a 0.8 per cent increase in public expenditure. Without significant additional resources the Chancellor's tax credit programme will be left beached and unable to play any further substantial role in reducing the numbers of children living in poverty.

There is a final concern about the tax credit strategy and this centres on the kind of society the Chancellor wishes to create. The married couple's tax allowance has been abolished to help pay for the tax credit system. Tax allowances cut tax liabilities and they become more valuable as taxpayers become eligible for the higher rate of tax. They therefore reward to a limited extent greater effort, whether that effort is in terms of working longer, taking on new responsibilities or finding new employment. Tax credits have the opposite effect. As income rises, the value of the credit falls. Worse still, most recipients know that their power to raise their own standard of living is small compared with what the Chancellor does to the tax credit system. Again, no free society prospers in the longer run if the majority of the working population look to the Exchequer rather than to themselves to improve their living standards.

Making welfare proactive

Tax credits are part of the strategy to increase the numbers of people in work. The New Deal has been the other major instrument in achieving this objective. A levy of £5 billion was placed on the privatised utilities to finance the programme. What effect has this budget had on reducing the numbers of claimants and particularly young claimants?

On one level the New Deal has been a success. It has helped begin to change the welfare culture as well as the political culture. From a passive welfare state which simply paid benefits, welfare is now more often viewed by politicians as a proactive agency which should have an equal duty to help claimants back into work as soon as that becomes a possibility. But has this £5 billion reform programme achieved its primary aim of ensuring that a significant number of claimants, who would otherwise have remained unemployed, secured jobs?

Most of this welfare to work budget has gone into delivering the New Deal for the under-25s. But New Deals for lone parents, for disabled people, for workers over 50, for partners of claimants, as well as a New Deal for those aged 25+ have also been established.

The Chancellor rightfully boasts that he has presided over what has now been the longest economic boom in British history. Most booms result in an expansion of jobs and, as job opportunities increase, so the welfare rolls fall. This link was evident before the operation of any New Deal programmes. Very large numbers of people drawing Jobseeker's Allowance want to work as soon as the opportunity arises. The question that has to be considered is how much greater has been the exit from the welfare rolls because of the New Deal.

Two studies have set out to measure the impact of the welfare to work programmes for the under-25s which has commanded over half of the New Deal budget.[7] Both studies found that the New Deal had a positive impact on the numbers taking jobs. But the impact in terms of the numbers returning to work as a direct result of New Deal was modest.

The first study was by the National Audit Office.[8] This found many of those entering work after going on the New Deal would have done so anyway. Labour's goal was to reduce youth unemployment by 250,000. This goal was easily achieved given the turnover in the labour market and growth in the economy. The NAO estimated that the New Deal had reduced youth unemployment by between 25,000 and 45,000 or at best, less than one fifth of the Government's overall goal.

The Department for Work and Pensions has published a report into the effects of the New Deal on the employment of younger people and its effects on the wider economy.[9] The report brought together research undertaken by the Policy Studies Institute and by the National Institute of Economic and Social Research. NIESR estimated that the New Deal reduced long-term unemployment (more than six months) by 45,000 and that total youth unemployment reduced by 35,000 in the first two years of the programme. The PSI estimates that the fall in youth unemployment was 40,000. The impact on the wider economy was estimated by NIESR at £500 million a year. The New Deal for under-25s therefore appears at best to have achieved only a fifth of the reduction in youth unemployment which Labour set itself in 1997. Most of the fall in unemployment stemmed from the traditional cause of a buoyant economy and would have occurred without one penny being spent on the New Deal programme.

The New Deal has also developed programmes for single parents and for claimants registered sick or disabled. Since April 2001 lone parents on income support with children over the age of five have been required to meet a personal advisor for what is called a work-focused interview. Attending this meeting has been made a condition of receiving benefit. Take-up of the opportunities which are discussed at this meeting remains optional and participation on the New Deal remains voluntary. An additional interview was introduced from April 2002 at the six month stage of an income support claim. Any lone parent, irrespective of the age of their youngest child, making a new or repeated claim for benefit at a Jobcentre Plus, is required to have a work-focused interview. Lone parents already receiving income support and with the youngest child aged 13–15 were called for personal advisor's meetings in 2001–02, those with their youngest child aged 9–12 were called in 2002–03, and those with the youngest child aged 5–8 were called in 2003–04. The extension of the requirement to attend a personal advisor meeting to all lone parents on income support with children under the age of five from April 2004 was announced in the 2002 Budget.

How successful has the New Deal for lone parents been? A very large proportion, I would guess over half of single parents on benefit, see a return to work as a normal and desirable goal, though they, like most of the electorate, might question the Government's drive to industrialise childcare and persuade mothers to return to work when children are very young. The numbers of single parents on benefit rises as unemployment rises and falls when unemployment falls. It is not surprising therefore that the Department for Work and Pensions reports favourable figures on the numbers of single parents leaving benefit for work.

No estimate has been undertaken of what the employment levels would be of single parent families with a growing economy had there been no New Deal for lone parents. One authority has suggested however that the US programmes have been much more successful in moving lone parents off welfare and into work.[10] Many US local programmes have provided a greater diversity of training options, have invested more heavily in childcare and have worked with public transport providers to restructure public transport so it reflects the changing times and places people work. The one objective the Government has set itself is to increase the employment rate of lone parents to 70 per cent by 2010. Eight years into the programme this figure stands at 56.6 per cent.[11]

The record is little better for helping incapacity benefit claimants back to work but then very little of the £5 billion welfare to work budget has been spent on this largest group of working age claimants. While £2.7 billion has been spent on New Deal for under-25 year olds, a group who saw the largest falls in claimant counts before the New Deal became operative, the total amount spent on helping people with disabilities gain employment stands at £204 million[12] although, until very recently, the total number of benefit claimants has been rising. Nor is it clear that the Pathways to Work pilots, for which £100 million was allocated in 2002, have proved more successful in the pilot areas in helping people with disabilities back into work than has been the overall rate of re-entering employment for people with disabilities who live outside these areas.

An omnibus measure of the impact of the New Deal is to compare UK employment, unemployment and workless rates with our continental competitors. The Chancellor claims how impressive the UK unemployment level is compared to other major European economies, suggesting that this is a measure of the dynamism of our economy which is itself, in part, the result of his active labour market policies. But if employment levels are examined, and if workless through sickness or disability data are also brought into the equation, the position is somewhat different.

While the UK has the second lowest International Labour Organisation unemployment rate it has the joint-highest proportion of 15–64 year olds who are economically inactive due to sickness or disability. Once those who are economically inactive due to sickness or disability are included in the jobless total for UK, France, and Germany, the levels of worklessness amongst working age people in the UK are higher than those in France, and the same as those in Germany, despite the fact that it is only in Britain that major welfare to work programmes costing £5 billion have been embarked upon.[13]

Making parents pay

Ensuring that a much larger proportion of parents who live apart from their children pay maintenance (nine-tenths of whom are fathers) is an objective of the Government's responsibility and rights policy as well as an instrument in attacking child poverty. The Child Support Agency was a major Conservative initiative which, while it was pulled back from the brink of collapse, was a public service which Labour saw as requiring further major improvements.

The objective of Labour's policy review which began in 1997 was to achieve that end. Two reform options were on the table. The first was the reform I wished to introduce. This was to recast in its entirety the Agency with maintenance liabilities paid as an additional rate of tax and with the Inland Revenue having responsibility for collecting payments as a normal part of the PAYE system. The CSA's task, apart from informing the family and then the Revenue of the additional tax liability, would be to concentrate its efforts on gaining payments from parents with liabilities whose working arrangements made automatic collection impossible.

This option was never seriously considered. Instead things were simply patched up, a new simpler formula was adopted and a contract given to EDS to build a new IT system. The results have been catastrophic in terms of children who still receive no maintenance and in the growth of the amount of back maintenance which looks as though it will never be collected. In spite of a contract with EDS in excess of £900 million the new system is performing less effectively overall than the original one whose performance was judged to be so poor that it had to be replaced. The Public Service Agreement target which states that 60 per cent of single parents on benefits should be gaining regular maintenance payments continues to look as though it is an objective which will only be met at the end of the rainbow. The Agency has failed to get beyond 25 per cent of lone parents on benefits receiving maintenance payments. At any one time 3 out of 10 parents attempting to gain maintenance payments are unsuccessful in gaining any money at all, let alone a regular payment each week. Another 330,000 applicants are still waiting to be processed by the Agency, with almost 1 in 5 of cases waiting for nearly 3 years. While many of those parents who have attempted to use the Agency have failed to gain regular maintenance, and the Agency itself has failed to meet almost all of the performance targets set for it by ministers, this most maligned of public bodies still costs taxpayers 70p for each £1 it does successfully gain for those parents.

Conclusion

The last Labour Government seriously to commit itself to welfare reform was the 1945

Labour Government. With little of the advantages that were bestowed on the Blair administrations, except that of a large parliamentary majority, the Attlee Government's success was such that it was essentially the same structure of welfare that Tony Blair had inherited and committed himself to reform.

So let me conclude by a brief audit of the Government's welfare reform programme. At the outset, the Government was presented with an opportunity that no other government has ever had to pursue successful root and branch reform:

- It inherited a strong and growing economy.

- A record number of jobs were being created.

- A significant budget surplus projected into the future.

- A £5bn welfare reform war chest amassed from taxing the privatised utilities.

- One of the largest ever parliamentary majorities.

- An electorate not only up for reform but willing the government on.

Yet the results have been modest.

- Adding the unemployed claimants to those on Incapacity Benefit gives Britain an inactivity rate similar to our main competitors in Europe.

- The CSA is in worse shape than the organisation Labour inherited although £1bn of taxpayers' money has been wasted on reform.

- Despite spending the equivalent of a 5p reduction in the standard rate of tax, one in two tax credit claimants are awarded the wrong amount.

Even where there has been success, and there has been, the Government has no effective strategy to maintain momentum.

- The Government is still to embark on serious Incapacity Benefit reform but the £5bn welfare reform war chest is now empty.

- Pension credit has redistributed record sums for the poorest pensioners but the Government has failed to produce a sustainable long-term pension strategy.

- An audacious target for the reduction in child poverty has been set and, while important gains have been made, this first target to cut child poverty by a quarter by 2005 has been missed, despite an annual spend of £13bn a year on tax credits, and there are no new significant sources of money available to pursue reducing child poverty to half by 2010.

Above all the Government allowed the electorate to believe that a reforming Labour Government would decrease dependency on means-testing and set the structure of welfare so that it worked with the grain of human nature. In this way honesty, effort and hard work would be rewarded and welfare dependency decreased. The opposite has occurred. Britain now has a record number of households dependent on means-tested welfare. We have to go back to the recession of the 1930s for this position to be equalled.

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